

**REPORT OF**  
**COUNTY EMPLOYEES' RETIREMENT FUND**  
**DECEMBER 31, 2007 and 2006**



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
County Employees' Retirement Fund

We have audited the accompanying statements of plan net assets of the County Employees' Retirement Fund as of December 31, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of County Employees' Retirement Fund as of December 31, 2007 and 2006, and the changes in plan net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis, and the schedules of funding progress and employer contributions are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on pages 20-21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Williams - Keepers LLC*

May 27, 2008

## **COUNTY EMPLOYEES' RETIREMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis (MD&A) of the County Employees' Retirement Fund's (CERF) financial performance provides an introduction to the financial statements of CERF for the years ended December 31, 2007 and 2006. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the financial statements.

### **Required Financial Statements**

CERF, a public employees' retirement plan, prepares its financial statements on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Statement of Plan Net Assets includes all of CERF's assets and liabilities and provides information about the nature and amount of investments available to satisfy the pension benefits of the plan. All additions to and deductions from the net assets held in trust for pension benefits are accounted for in the Statement of Changes in Plan Net Assets. This statement measures CERF's success over the past year in increasing the net assets available for pension benefits.

### **Financial Analysis of CERF**

While the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets measure the value of plan net assets and the changes to them, another important factor needs to be considered in order to determine the financial health of CERF. That additional factor is the plan's funded status. In 2007, additions to net assets of \$42,112,874 exceeded deductions of \$17,921,797 by \$24,191,077. This net increase brought the Plan's net asset base to \$257,237,556. For actuarial calculations, CERF's actuary uses the market value of assets to determine the actuarial value of assets. Beginning in 2007, CERF changed its annual actuarial valuation date from January 1 to July 1. Thus, at June 30, 2007, the actuarial value of assets was \$254,803,856. The aggregate actuarial liability for CERF was \$308,563,489. The plan is not 100% funded at present, as it is a relatively new plan created by legislation in August, 1994 and the CERF plan granted past service credit. Our funded position has steadily improved since inception and the actuary expects it to continue to improve. On an actuarial basis, the assets held as of June 30, 2007 currently fund 83% of this liability. This is an increase from the funding ratio of 78% for December 31, 2006. If a ratio of the actuarial value of assets to the actuarial present value of accrued benefits is used, the funding ratio increases from 91% as of December 31, 2006, to 96% as of June 30, 2007.

## Plan Net Assets

To begin the financial analysis, a summary of CERF's Plan Net Assets is as follows:

### Condensed Statements of Plan Net Assets (in \$000's)

	2007	2006	Dollar Change	Percent Change
Cash and cash equivalents	\$ 1,217	\$ 1,263	\$ (46)	-4%
Receivables	3,620	3,537	83	2%
Investments	250,616	225,727	24,889	11%
Invested securities lending collateral	69,298	65,800	3,498	5%
Other assets	12	2	10	500%
Capital assets, net	4,015	4,266	(251)	-6%
Total assets	328,778	300,595	28,183	9%
Liabilities	71,540	67,549	3,991	6%
Total plan net assets	\$ 257,238	\$ 233,046	\$ 24,192	10%

As the above table shows, plan net assets increased by \$24,191,077, or 10%, in 2007. This increase reflects the investment gains experienced, as well as the additional income earned through securities lending, in 2007.

The following table presents the investment allocation for 2007 and 2006, and CERF's target allocation for 2007. CERF considers its land and administrative office building to be part of its real estate investment portfolio, whereas they are classified as capital assets in the financial statements. These percentages are based on including the land and building at cost, with no depreciation, and classifying temporarily uninvested cash in each investment fund as part of the fund's overall category, whereas such cash is classified as cash equivalents in the financial statements. Otherwise, these percentages may reflect some minor differences in classifications among categories as compared to the classifications used for investments in the accompanying financial statements.

	2007	2006	Target
Bonds	28.9%	28.4%	30.0%
U. S. Equities	40.6%	42.4%	40.0%
International Equities	15.3%	15.4%	15.0%
Equity Long/Short	9.1%	8.6%	10.0%
Real Estate	5.3%	4.5%	5.0%
Cash	0.8%	0.7%	*

\*The investment policy permits up to 3% of the portfolio to be in cash and cash equivalents.

**Condensed Statements of Plan Net Assets**  
(in \$000's)

	2006	2005	Dollar Change	Percent Change
Cash and cash equivalents	\$ 1,263	\$ 1,014	\$ 249	25%
Receivables	3,537	3,241	296	9%
Investments	225,725	190,373	35,352	19%
Invested securities lending collateral	65,800	-	65,800	100%
Other assets	8	2	6	
Capital assets, net	4,266	4,625	(359)	-8%
Total assets	300,599	199,255	101,344	51%
Liabilities	67,549	1,533	66,016	4306%
Total plan net assets	\$ 233,050	\$ 197,722	\$ 35,328	18%

As the above table shows, plan net assets increased by \$35,324,390, or 18%, in 2006. This increase reflects the investment gains experienced, as well as the additional income earned through securities lending in 2006.

The following table presents the investment allocation for 2006 and 2005, and CERF's target allocation for 2006. CERF considers its land and administrative office building to be part of its real estate investment portfolio, whereas they are classified as capital assets in the financial statements. These percentages are based on including the land and building at cost with no depreciation, and classifying temporarily uninvested cash in each investment fund as part of the fund's overall category, whereas such cash is classified as cash equivalents in the financial statements. Otherwise these percentages may reflect some minor differences in classifications among categories as compared to the classifications used for investments in the accompanying financial statements:

	2006	2005	Target
Bonds	28.4%	27.6%	30.0%
U. S. Equities	42.4%	40.0%	42.5%
International Equities	15.4%	14.5%	12.5%
Equity Long/Short	8.6%	9.6%	10.0%
Real Estate	4.5%	4.7%	5.0%
Cash	0.7%	3.6%	*

\*The investment policy permits up to 3% of the portfolio to be in cash and cash equivalents.

The underweighting of Bonds was due to poor bond return in 2006. In addition, CERF was accumulating additional funds to invest with its Equity Long/Short manager in early 2007, in place of making an additional investment in bonds near the end of 2006. There was an overweighting in International Equities at year end due to that allocation's excellent performance in 2006, and since CERF is positioning to increase its target allocation in International Equities in the near future, no immediate reduction in that allocation seemed warranted.

Condensed Statements of Changes in Plan Net Assets  
(in \$000's)

	2007	2006	Dollar Change	Percent Change
Additions:				
Contributions:				
Counties receipts	\$ 19,760	\$ 18,924	\$ 836	4%
By members	6,861	5,889	972	17%
For members, paid by counties	694	560	134	24%
Members, purchase of prior service	83	64	19	30%
Total contributions	27,398	25,437	1,961	8%
Net investment income	14,636	25,133	(10,497)	-42%
Net securities lending income	79	65	14	22%
Total additions	42,113	50,635	(8,522)	-17%
Deductions:				
Benefits	\$ 12,122	\$ 10,779	\$ 1,343	12%
Refunds	2,234	1,566	668	43%
Defined contribution plan match	1,627	1,070	557	52%
Administrative expenses	1,939	1,895	44	2%
Total deductions	17,922	15,310	2,612	17%
Net increase in plan net assets	\$ 24,191	\$ 35,325	\$ (11,134)	-32%
	2006	2005	Dollar Change	Percent Change
Additions:				
Contributions:				
Counties	\$ 18,924	\$ 18,329	\$ 595	3%
By members	5,889	5,003	886	18%
For members, paid by counties	560	503	57	11%
Members, purchase of prior service	64	58	6	10%
Total contributions	25,437	23,893	1,544	6%
Net investment income	25,133	9,340	15,793	169%
Net securities lending income	64	-	64	
Total additions	50,634	33,233	17,401	52%
Deductions:				
Benefits	\$ 10,779	\$ 9,910	\$ 869	9%
Refunds	1,566	1,176	390	33%
Defined contribution plan match	1,070	979	91	9%
Administrative expenses	1,895	1,943	(48)	-2%
Total deductions	15,310	14,008	1,302	9%
Net increase (decrease) in plan net assets	\$ 35,325	\$ 19,225	\$ 16,100	84%

## Additions

Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Contributions for 2007 totaled \$27,397,679 which was 8% above those received in 2006. Contributions for 2006 totaled \$25,436,571 which was 6% above those received in 2005. Due to the legislation which took effect in 2003, as new employees continue to replace employees hired prior to February 25, 2002, employee contributions are expected to continue to rise.

The \$10,496,851 decrease in net investment income in 2007, as compared to 2006, is attributable to a weaker overall market environment for stocks in 2007. For example, the S&P 500 Index returned 15.8% in 2006, but only 5.5% in 2007. Similarly, the MSCI EAFE Index gained 26.9% in 2006 and 11.6% in 2007. Consequently, the total rate of return for the CERF portfolio in 2007 was 6.9%, as compared to 13.3% in 2006. CERF's Large Cap U.S. Equities returned 3.2%, as compared to 5.5% for the S & P 500 Index. The Small/Mid Cap U.S. Equities returned 1.5%, as compared to 1.4% for the Russell 2500 Index. The fixed income portfolio returned 7.4%, as compared to 7.0% for the Lehman Brothers Aggregate Index. CERF's international stock portfolio returned 10.1%, as compared to 11.6% for the MSCI EAFE Index. The Equity Long/Short position returned 16.5%, as compared to 10.7% for the HFRI Equity Hedge Index. The Real Estate portfolio consists of an investment in core real estate, as well as CERF's office building. In 2007, the core real estate investment returned 17.2%, as compared to the NCREIF Property Index return of 17.3%. The return on investment in CERF's office building will be recognized as periodic appraisals are conducted, which are anticipated to be done every five years.

The \$15,792,790 increase in net investment income in 2006, as compared to 2005, is attributable to the impressive performance of CERF's equity funds in 2006, and, in particular, its international equities. Consequently, the total rate of return for the portfolio in 2006 was 13.3%, as compared to 5.8% in 2005. CERF's Large Cap U.S. Equities returned 15.1%, as compared to 15.8% for the S & P 500 Index. The Small/Mid Cap U.S. Equities returned 16.5%, as compared to 16.2% for the Russell 2500 Index. The fixed income portfolio returned 5.2%, as compared to 4.3% for the Lehman Brothers Aggregate Index. Our international stock portfolio returned 28.8%, as compared to 26.9% for the MSCI EAFE Index. The Equity Long/Short position returned 6.2%, as compared to 11.7% for the HFRI Equity Hedge Index. The Real Estate portfolio consists of an investment in core real estate, as well as CERF's office building. In 2006, the core real estate investment returned 15%, as compared to the NCREIF Property Index return of 16.6%. The return on investment in CERF's office building will be recognized as periodic appraisals are conducted, which are anticipated to be done every five years.

Beginning in January 2006, the Board of Directors authorized CERF to enter into a Securities Lending Agreement with Key Bank, thus allowing CERF to lend its securities to broker-dealers, which provides additional income to CERF. Net securities lending income for 2007 was \$78,826, as compared to \$64,646 in 2006.

When comparing returns, it is important to note that CERF's investment objectives should be pursued as long-term goals designed to maximize return while reducing exposure to undue risk, as set out in the Board's investment policy. At a minimum, it is the objective of CERF to meet its actuarial interest assumption on an ongoing basis. Currently, the actuarial interest assumption is 8%. The desired objective on a long-term basis is to achieve an excess return over the actuarial assumption of 1%, which is an absolute objective of 9%, net of

investment management fees and transaction costs. Long term is defined as greater than 10 years. Some of the results for the total fund are:

<u>Period</u>	<u>Annualized Returns</u>	<u>Compared to Other Public Funds</u>
One year	6.9%	75th Percentile
Three years	8.6%	69 <sup>th</sup> Percentile
Five Years	12.0%	57 <sup>th</sup> Percentile
Ten Years	9.0%	4 <sup>th</sup> Percentile

### **Deductions**

The expenses paid by CERF include benefit payments, refunds, a defined contribution plan match, and administrative expenses.

Expenses for 2007 totaled \$17,921,797, an increase of \$2,611,750 over 2006. The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 2,453 in 2007 from 2,185 in 2006 (an increase of 268 retirees, as compared to the 156 retiree increase for 2006), as well as an increase in the amount of the average benefit. The substantial increase in refunds in 2007 is due both to an increase in the number of terminated non-vested employees and the refunding of larger amounts of contributions being made by employees hired after February 24, 2002 as these employees terminate, non-vested.

Expenses for 2006 totaled \$15,310,047, an increase of \$1,301,695 over 2005. The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 2,185 in 2006 from 2,029 in 2005, as well as an increase in the amount of the average benefit. The \$116,918 increase in refunds in 2006 is primarily due to the refunding of larger amounts of contributions being made by employees hired after February 24, 2002 as these employees terminate, non-vested.

### **Economic Outlook**

CERF's estimated investment return for the three months ended March 31, 2008, is approximately -5.3%. CERF's investments as of March 31, 2008 total approximately \$245,225,000, a decrease of \$10,169,027 since December 31, 2007, due to a significant weakness in stocks stemming from the credit crisis and ever-increasing oil prices. The S&P 500 Index return during the first quarter was -9.5%, while the MSCI EAFE Index was -8.8%.

In 2005, the Legislature passed legislation directing CERF to make no adjustments until the fund achieves a funded ratio of assets to the actuarial accrued liability equaling at least 80% (§50.1031, RSMo.). In 2007, CERF's Board of Directors was very pleased to be able to approve and implement a pension benefit enhancement package effective October 1, 2007, after having achieved a funded status of 83% at June 30, 2007. The benefit enhancements made are as follows: (a) The minimum amount used in the Flat-Dollar Formula is increased from \$24 to \$29; (b) Credit is given for years of service greater than 25, but no more than 29; and (c) The breakpoints used in the Targeted Replacement Ratio (TRR) Formula are adjusted. In addition, the Defined Contribution Plan match for LAGERS participants is increased to equal the match for Non-LAGERS participants.

The year 2007 was a transitional year for CERF, as investment managers were replaced due to organizational changes and underperformance. In 2008, two new asset classes will be introduced to CERF's portfolio, including an alternative fixed fund of funds product and private equity.



# COUNTY EMPLOYEES' RETIREMENT FUND

## STATEMENTS OF PLAN NET ASSETS

December 31, 2007 and 2006

	2007	2006
<b>ASSETS</b>		
Cash	\$ 1,217,479	\$ 1,263,491
Receivables:		
Member contributions	382,539	421,319
Member prior service contributions	127,847	119,424
County contributions	2,296,294	2,260,123
Accrued interest and dividends	813,408	735,833
Total receivables	3,620,088	3,536,699
Investments, at fair value:		
U.S. Government and agencies	45,611,361	23,205,388
Foreign Bonds	2,916,245	1,816,717
Corporate bonds	21,657,312	33,275,876
Domestic stocks	92,415,042	93,150,734
International equities funds	39,129,320	35,548,861
Equity mutual funds	4,764,442	-
Hedge funds	23,230,725	19,915,988
Real estate fund	9,488,123	6,342,444
Cash equivalents	11,403,056	12,465,342
Total investments	250,615,626	225,721,350
Invested securities lending collateral	69,297,655	65,799,630
Other assets	11,842	8,419
Capital assets, net of accumulated depreciation of \$1,681,455 and \$1,429,099	4,015,139	4,265,600
Total assets	328,777,829	300,595,189
<b>LIABILITIES</b>		
Accounts payable	352,397	399,548
Accrued defined contribution plan contribution	1,626,581	1,070,115
Other accrued expenses	124,951	130,392
Deferred revenue	138,689	149,025
Collateral for securities on loan	69,297,655	65,799,630
Total liabilities	71,540,273	67,548,710
Net assets held in trust for pension benefits	\$ 257,237,556	\$ 233,046,479
(A schedule of funding progress is presented on page 19)		

The notes to financial statements are an integral part of these statements

# COUNTY EMPLOYEES' RETIREMENT FUND

## STATEMENTS OF CHANGES IN PLAN NET ASSETS For the Years Ended December 31, 2007 and 2006

	2007	2006
ADDITIONS:		
Contributions:		
County receipts	\$ 19,760,207	\$ 18,923,599
By members	6,860,679	5,888,992
For members, paid by counties	694,056	560,101
Members, purchase of prior service	82,737	63,879
Total contributions	27,397,679	25,436,571
Investment income:		
Net appreciation in fair value of investments	8,975,613	20,646,101
Interest	4,228,613	3,464,188
Dividends	2,790,870	2,250,722
Total investment income	15,995,096	26,361,011
Less investment expenses	1,358,727	1,227,791
Net investment income	14,636,369	25,133,220
Securities lending income	3,637,542	3,824,237
Less expenses	3,558,716	3,759,591
Net securities lending income	78,826	64,646
Total additions	42,112,874	50,634,437
DEDUCTIONS:		
Benefits	12,122,669	10,778,646
Refunds of member contributions	2,233,588	1,566,287
Defined contribution plan matching contribution	1,626,581	1,070,115
Administrative expense	1,938,959	1,894,999
Total deductions	17,921,797	15,310,047
Net increase	24,191,077	35,324,390
Net assets held in trust for pension benefits		
Beginning of year	233,046,479	197,722,089
End of year	\$ 257,237,556	\$ 233,046,479

The notes to financial statements are an integral part of these statements

# COUNTY EMPLOYEES' RETIREMENT FUND

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Accounting:* The County Employees' Retirement Fund financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

*Method Used to Value Investments:* Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Bonds and stocks traded on a national or international exchange are valued at the last reported sales price at current exchange rates as reported by independent pricing services. The values of real estate included in the real estate fund investment are based upon annual independent appraisals, updated quarterly, as provided by the fund manager. Investments that do not have an established market are reported at estimated fair value as provided by investment or fund managers.

*Property and Equipment:* Property and equipment, including computer software programs, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated lives of the assets of from three to fifty years.

*Estimates:* The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

*Reclassifications:* Certain prior year amounts in the Statements of Changes in Plan Net Assets have been reclassified to conform to the current year presentation. Member contributions paid by counties have been removed from the line for counties contributions and displayed on a separate line, and taxes withheld on certain refunds have been reclassified from the line item for benefits to the line item for refunds of member contributions.

### 2. PLAN DESCRIPTION

The County Employees' Retirement Fund was established by an act of the Missouri General Assembly effective August 28, 1994. Laws governing the retirement fund are found in Sections 50.1000-50.1300 of the Missouri Revised Statutes (RSMo). The Board of Directors consists of eleven members, nine of whom are county employee participants. Two members, who have no beneficiary interest in the Fund, are appointed by the Governor of Missouri. The Board of Directors has the authority to adopt rules and regulations for administering the system.

The Fund is a mandatory cost-sharing multiple employer retirement system for each county in the state of Missouri, except any city not within a county (which excludes the City of St. Louis) and counties of the first classification with a charter form of government. The Fund covers county elective or appointive officers or employees whose position requires the actual performance of duties not less than 1,000 hours per year; including employees of circuit courts located in a first class, non-charter county which is not participating in the Local Government Employees Retirement System (LAGERS); and does not cover circuit clerks, deputy circuit clerks, county prosecuting attorneys, and county sheriffs. Until January 1, 2000, employees hired before January 1, 2000 could opt out of the system. The Fund is a defined benefit plan providing retirement and death benefits to its members. All benefits vest after 8 years of creditable service. Employees who retire on or after age 62 are entitled to an allowance for life based on the form of payment selected. The normal form of payment is a single life annuity. Optional joint and survivor annuity and 10-year certain and life annuity

payments are also offered to members in order to provide benefits to a named survivor annuitant after their death. Employees who have a minimum of 8 years of creditable service may retire with an early retirement benefit and receive a reduced allowance after attaining age 55. Annual cost-of-living adjustments, not to exceed 1%, are provided for eligible retirees and survivor annuitants, up to a lifetime maximum of 50% of the initial benefit which the member received upon retirement. Benefit provisions are fixed by state statute and may be amended only by action of the Missouri Legislature. Administrative expenses for the operation of the Fund are paid out of the funds of the system.

*Contributions:* Prior to January 1, 2003, participating county employees, except for those who participated in LAGERS, were required to make contributions equal to 2% of gross compensation. Effective January 1, 2003, in addition to the prior contributions requirements, participating county employees hired on or after February 25, 2002 are required to make contributions of 4% if they are in a LAGERS county and contributions of 6% if they are in a non-LAGERS county. If an employee leaves covered employment before attaining 8 years of creditable service, accumulated employee contributions are refunded to the employee. The contribution rate is set by state statute and may be amended only by action of the Missouri Legislature.

Counties may elect to make all or a portion of the required contribution on behalf of employees. Total county-paid member contributions for the years ended December 31, 2007 and 2006 were \$694,056 and \$560,101, respectively.

In addition, the following fees and penalties prescribed under Missouri law are required to be collected and remitted to the Fund by counties covered by the fund:

- \* Late fees on filing of personal property tax declarations
- \* Twenty dollars for each merchants and manufacturers license issued
- \* Six dollars on each document recorded or filed with county recorders of deeds, with an additional one dollar on each document recorded
- \* Three sevenths of the fee on delinquent property taxes
- \* Interest earned on investment of the above collections prior to remittance to the Fund

*Members:* The Fund members include eligible employees of 111 counties in the State of Missouri. The number of members and benefit recipients served by the system at December 31, 2007 and 2006 were:

	2007	2006
Retirees and beneficiaries receiving benefits	2,453	2,264
Terminated employees entitled to but not yet receiving benefits	1,468	1,377
Current active plan members	11,050	10,946
Total	14,971	14,587

*Tax status:* The Internal Revenue Service has determined and informed the Fund by letter dated January 16, 2001, that the plan as amended through May 1, 2000 is in a form acceptable under the Internal Revenue Code.

### 3. DEPOSITS AND INVESTMENTS

*Custodial Credit Risk for Deposits:* Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. At December 31, 2007 and 2006, the Fund's bank balances were secured by a combination of federal depository insurance and pledged collateral held in the Fund's name by an agent of the depository bank.

*Investments:* Funds are invested by outside managers under policies established by the Board of Directors. The Board requires that its investment managers invest the Fund's assets with the care, skill, and diligence a

prudent person familiar with such matters acting in a like capacity would use in a similar enterprise with like objectives.

The following table summarizes CERF investments by type at December 31, 2007 and 2006:

	2007	2006
U.S. government and agencies securities	\$ 45,611,361	\$ 23,205,388
Foreign bonds	2,916,245	1,816,717
Corporate bonds and notes	21,657,312	33,275,876
Domestic stocks	92,415,042	93,150,734
International equities funds	39,129,320	35,548,861
Equity mutual funds	4,764,442	-
Hedge funds	23,230,725	19,915,988
Real estate fund	9,488,123	6,342,444
Cash equivalents	11,403,056	12,465,342
Total	<u>\$ 250,615,626</u>	<u>\$ 225,721,350</u>

The Fund's investment policy permits investments in equity and fixed income (debt) securities and real estate, with guidelines for the percentage of the total for each category and for the type of investments within each category.

With respect to debt securities, the policy permits fixed and variable rate securities issued or guaranteed by the U.S. government, its agencies or instrumentalities; and U.S. government sponsored and other corporation securities. To manage interest rate and credit risks, two investment managers are used for debt securities, each operating under specific guidelines with respect to approved securities, duration, diversification, and minimum quality ratings by Moody's or Standard and Poors.

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the option-adjusted methodology. The Fund benchmarks the fixed income portfolio to the Lehman Brothers Aggregate Bond Index. At December 31, 2007, the effective duration of the Lehman Aggregate Bond Index was 4.41 years, whereas, the Fund's fixed income portfolio had an effective duration of 3.56 years. At December 31, 2006, the effective duration of the Lehman Aggregate Bond Index was 4.46 years, whereas, the Fund's fixed income portfolio had an effective duration of 5.04 years. The following table summarizes duration by investment type as of December 31, 2007:

Investment	2007 Fair Value	Effective Duration Rate
U.S. Treasuries	\$ 13,032,046	8.18 years
U.S. agencies	6,457,521	2.91 years
U.S. agencies mortgage pool	26,121,794	4.82 years
Commercial mortgage backed securities	4,617,618	3.20 years
Other asset backed securities	1,947,717	2.39 years
U.S. corporate - financial	5,304,462	5.13 years
U.S. corporate - industrial	7,913,030	8.04 years
U.S. corporate - utility	1,874,485	3.05 years
International	2,916,245	1.46 years
Total	<u>\$ 70,184,918</u>	

The following table summarizes duration by investment type as of December 31, 2006:

Investment	2006 Fair Value	Effective Duration Rate
U.S. Treasuries	\$ 8,092,565	5.67 years
U.S. agencies	2,157,787	1.86 years
U.S. agencies mortgage pool	12,955,036	3.66 years
Commercial mortgage backed securities	7,862,381	4.48 years
Other asset backed securities	4,433,830	1.95 years
U.S. corporate - financial	9,586,928	5.30 years
U.S. corporate - industrial	9,460,149	7.49 years
U.S. corporate - utility	1,932,588	6.78 years
International	1,816,717	2.44 years
Total	<u>\$ 58,297,981</u>	

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Fund. The Fund's debt securities investments by credit rating category as of December 31, 2007 are presented in the following table.

Credit Rating Level	Total	U.S. Treasuries and Direct- Guaranteed Agencies	U.S. Sponsored Agencies	U.S. Sponsored Agencies - Mortgage Pools	Commercial Mortgage Backed Securities	Other Commercial Asset backed securities	U.S. Corporate Financial	U.S. Corporate Industrial	U.S. Corporate Utility	Foreign
Guaranteed	\$ 13,960,786	\$ 13,032,046	\$ -	\$ -	\$ 928,740	\$ -	\$ -	\$ -	\$ -	\$ -
Aaa	41,761,288	-	6,457,521	26,121,794	3,688,878	1,947,717	821,197	-	330,618	2,393,563
Aa2	665,906	-	-	-	-	-	508,002	157,904	-	-
Aa3	955,378	-	-	-	-	-	812,380	-	-	142,998
A	547,173	-	-	-	-	-	-	-	547,173	-
A1	1,489,140	-	-	-	-	-	919,122	570,018	-	-
A2	1,095,179	-	-	-	-	-	523,670	299,303	-	272,206
A3	393,245	-	-	-	-	-	142,998	-	250,247	-
Baa1	2,250,560	-	-	-	-	-	414,210	1,836,350	-	-
Baa2	1,984,271	-	-	-	-	-	250,806	1,521,052	104,935	107,478
Baa3	2,217,516	-	-	-	-	-	181,360	1,751,359	284,797	-
Ba1	950,271	-	-	-	-	-	481,285	355,884	113,102	-
Ba2	102,761	-	-	-	-	-	-	102,761	-	-
Ba3	226,625	-	-	-	-	-	-	226,625	-	-
B1	834,238	-	-	-	-	-	-	590,625	243,613	-
B2	337,921	-	-	-	-	-	-	337,921	-	-
B3	412,660	-	-	-	-	-	-	412,660	-	-
Total	<u>\$ 70,184,918</u>	<u>\$ 13,032,046</u>	<u>\$ 6,457,521</u>	<u>\$ 26,121,794</u>	<u>\$ 4,617,618</u>	<u>\$ 1,947,717</u>	<u>\$ 5,055,030</u>	<u>\$ 8,162,462</u>	<u>\$ 1,874,485</u>	<u>\$ 2,916,245</u>

The Fund's debt securities investments by credit rating category as of December 31, 2006 are presented in the following table.

Credit Rating Level	Total	U.S. Treasuries and Direct-Guaranteed Agencies	U.S. Sponsored Agencies	U.S. Sponsored Agencies - Mortgage Pools	Commercial Mortgage Backed Securities	Other Commercial Asset backed securities	U.S. Corporate Financial	U.S. Corporate Industrial	U.S. Corporate Utility	Foreign
Guaranteed	\$ 8,092,565	\$ 8,092,565	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aaa	29,260,172	-	2,157,787	12,955,036	7,862,381	4,433,830	434,569	-	-	1,416,569
Aa3	2,274,900	-	-	-	-	-	1,974,338	300,562	-	-
A1	2,909,205	-	-	-	-	-	2,605,936	303,269	-	-
A2	2,335,512	-	-	-	-	-	1,747,702	204,015	383,795	-
A3	1,171,166	-	-	-	-	-	839,669	88,295	243,202	-
Baa1	1,574,047	-	-	-	-	-	70,407	1,448,386	55,254	-
Baa2	3,974,358	-	-	-	-	-	1,354,215	1,644,132	781,138	194,873
Baa3	2,647,822	-	-	-	-	-	560,092	1,732,656	355,074	-
Ba1	1,321,133	-	-	-	-	-	-	1,207,008	114,125	-
Ba2	408,569	-	-	-	-	-	-	408,569	-	-
Ba3	708,151	-	-	-	-	-	-	708,151	-	-
B1	850,987	-	-	-	-	-	-	850,987	-	-
B2	558,559	-	-	-	-	-	-	353,284	-	205,275
B3	210,835	-	-	-	-	-	-	210,835	-	-
Total	\$ 58,297,981	\$ 8,092,565	\$ 2,157,787	\$ 12,955,036	\$ 7,862,381	\$ 4,433,830	\$ 9,586,928	\$ 9,460,149	\$ 1,932,588	\$ 1,816,717

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of a Fund's investment in a single issuer. The Fund's investment guidelines require diversified portfolios with no single issue, excluding U.S. government securities, being greater than 5% of each manager's total portfolio value at cost or 7% at market value. GASB 40 requires disclosure of any single issue, excluding U.S. government securities, that exceeds 5% of the total investment portfolio. As of December 31, 2007 and 2006, no single issue exceeded the 5% threshold.

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The following is a summary of the Fund's international equities funds showing the exposure to foreign currency risk as of December 31, 2007 and 2006:

	2007	2006
Argentine Peso	\$ 15,677	\$ -
Australian Dollar	-	41,151
Bermuda Dollar	737,795	545,589
Brazilian Real	975,469	718,095
Canadian Dollar	418,696	921,663
China Yuan Renminbi	170,209	153,382
Denmark Kroner	-	7,482
Euro	14,125,018	13,457,326
Hong Kong Dollar	207,230	104,753
Indian Rupee	6,719	-
Indonesian Rupiah	-	1,871
Japanese Yen	10,495,906	6,799,208
Mexico Peso	553,477	422,463
New Zealand Dollar	254,539	272,795
Norwegian Krone	125,417	29,928
Qatari Rial	6,719	-
Russian Ruble	132,136	56,115
Singapore Dollar	2,240	900,322
South African Rand	17,917	11,223
South Korean Won	2,294,537	1,693,994
Swiss Franc	1,122,885	2,115,688
Taiwan New Dollars	446,366	541,844
United Kingdom Pound	6,487,577	5,837,918
Venezuelan Bolivar	-	148,185
United States Dollar	532,791	767,866
Total Foreign Equities	<u>\$ 39,129,320</u>	<u>\$ 35,548,861</u>

*Derivatives:* Derivatives are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. Derivatives often require little or no initial investment, but involve off-balance sheet risk. The Fund from time to time enters into various transactions involving derivatives, primarily to enhance the performance and reduce the volatility of its portfolio. Derivatives held by the Fund include mortgage-backed to-be-announced (TBA) forward contracts and collateralized mortgage obligations (CMOs). TBA forward contracts represent commitments to purchase mortgage-backed securities for delivery at an agreed-upon specific future date, however; the specific securities have not yet been issued. CERF invests the approximate value of TBA contracts in cash equivalent securities scheduled to mature on or near the TBA settlement date. The fair value of TBA contracts, which are not included in the carrying value of investments, totaled \$1,782,825 and \$5,546,451 at December 31, 2007 and 2006, respectively. CMOs are a type of mortgage-backed security that represent claims to specific cash flows from large pools of home mortgages. The fair value of CMOs, which are included in the schedules of investments by type, duration and credit risk in this note, totaled \$483,229 and \$541,268 at December 31, 2007 and 2006, respectively. TBAs and CMOs involve market risk resulting from interest rate fluctuations and, in the case of CMOs, changes in the timing of mortgage prepayments.

*Securities Lending Program:* The Fund participates in a securities lending program administered by KeyBank



National Association (the custodian). Under this program, the Board of Directors has authorized the Fund to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. At the initiation of a loan, borrowers are required to provide cash collateral at 102% of the market value of loaned securities. This cash collateral is then invested in certain qualified investments as detailed in the securities lending agreement. There are no restrictions on the amount of securities that can be lent at one time. Securities lent as of December 31, 2007 and 2006 consisted of U.S. government and agency securities, U.S. equities, U.S. corporate bonds, and mortgage backed securities. The Fund does not have the ability to pledge or sell collateral securities unless the borrower defaults. There were no losses during the year resulting from a default of the borrowers or custodial bank.

The maturities of the investments made with cash collateral do not generally match the maturity of security loans. The Fund and the borrowers each maintained the right to terminate all security lending transactions on demand, although the average term of these loans was 1 day at December 31, 2007 and 2006. The weighted average duration of collateral investments at December 31, 2007 and 2006 was 10.8 and 4.8 days, respectively.

As of December 31, 2007 and 2006, the fair market value, including accrued interest, of securities on loan was \$67,151,316 and \$63,657,679, respectively. The fair value of investments made with the associated collateral was \$69,292,655 and \$65,799,630 as of December 31, 2007 and 2006, respectively. Net security lending income was \$78,826 and \$64,646 for 2007 and 2006, respectively. At December 31, 2007 and 2006, the Fund had no credit risk exposure to borrowers because the fair value of collateral held exceeded the market value of securities lent.

#### 4. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2007:

	January 1, 2007	Additions	Disposals and Adjustments	December 31, 2007
Assets not being depreciated:				
Land	\$ 932,050	\$ -	\$ -	\$ 932,050
Assets being depreciated:				
Building	3,028,389	-	(5,570)	3,022,819
Equipment, furnishings and computer software	1,734,260	20,099	(12,634)	1,741,725
Total assets being depreciated	4,762,649	20,099	(18,204)	4,764,544
Less accumulated depreciation	1,429,099	264,990	(12,634)	1,681,455
Net assets being depreciated	3,333,550	(244,891)	(5,570)	3,083,089
Total capital assets	\$ 4,265,600	\$ (244,891)	\$ (5,570)	\$ 4,015,139

Capital assets consist of the following as of December 31, 2006:

	January 1, 2006	Additions	Disposals	December 31, 2006
Assets not being depreciated:				
Land	\$ 986,316	\$ -	\$ (54,266)	\$ 932,050
Assets being depreciated:				
Building	3,028,389	-	-	3,028,389
Equipment, furnishings and computer software	1,730,684	40,920	(37,344)	1,734,260
Total assets being depreciated	4,759,073	40,920	(37,344)	4,762,649
Less accumulated depreciation	1,120,537	341,512	(32,950)	1,429,099
Net assets being depreciated	3,638,536	(300,592)	(4,394)	3,333,550
Total capital assets	\$ 4,624,852	\$ (300,592)	\$ (58,660)	\$ 4,265,600

## 5. PRIOR SERVICE CONTRIBUTIONS

Prior to January 1, 2000, an eligible county employee who was employed on January 1, 1990, but not employed at the Fund's inception and who had at least eight years of prior service could purchase a portion of such prior service. For those who elected to purchase such prior service, at least fifty percent of the dollar amount of the purchase as calculated by law is due upon retirement and the remaining amount is deducted from retirement benefit payments over a maximum period of four years.

The receivables for member prior service contributions shown on the accompanying statements of net assets represent the total amount, as of December 31, 2007 and 2006, that is due in future periods from retirees who have elected to purchase prior service.

An eligible county employee who opted out of the system prior to January 1, 2000 had the option to become a member within three months of the three year anniversary of the decision to opt out. Upon deciding to opt in to the system, such employee either purchased in total or began payroll deductions to purchase all or part of his prior creditable service plus interest over a maximum period of four years. Such amounts are recognized as contributions when received by the Fund.

## 6. RETIREMENT PLANS FOR FUND EMPLOYEES

All full-time employees of the Fund are eligible for participation in a defined contribution plan. The Fund contributes 6% of a participating employee's monthly gross salary to the plan. The contribution requirements of the plan are governed by the plan document, which may be amended by the Board of Directors. Employees do not contribute to the retirement plan. Employees become vested in contributions made by the Fund after 5 years of creditable service. Total contributions for the year ended December 31, 2007 and 2006 were \$29,942 and \$19,176, respectively.

All full-time employees are eligible for participation in an Internal Revenue Code (IRC) 457 deferred compensation plan upon their eligibility in the defined contribution plan.

## 7. DEFINED CONTRIBUTION AND DEFERRED COMPENSATION PLANS

*Plan Description:* Effective January 1, 2000, the Fund also administers a defined contribution plan and an IRC Section 457 deferred compensation plan. The plans were established to provide an opportunity for

members of the pension plan to have additional retirement benefits. The plans' provisions and contribution requirements are established and may be amended only by action of the Missouri Legislature. Members of the pension plan are eligible to participate.

*Contributions:* Pension plan members who are not members of LAGERS are required to contribute 0.7% of gross compensation to the defined contribution plan. Contributions of \$718,687 and \$690,616 were made during the years ended December 31, 2007 and 2006, respectively. Participation in the 457 plan is voluntary. The level of contributions to the 457 plan is elected by the employee, subject to the limitations of IRC Sections 401(a) and 457. The Fund's Board of Directors determines if matching contributions from the pension plan trust funds for a calendar year will be made to the defined contribution plan accounts of those who participated in the 457 plan. The amount of any matching contribution is determined by the Board, and is limited to an amount not needed to keep the pension plan actuarially sound. The matching contribution is also limited to 50% of a member's voluntary contributions to the 457 plan, up to 3% of the member's compensation. Members vest in the matching portion of contributions allocated to their respective accounts after five years of creditable service. Matching contributions for the years ended December 31, 2007 and 2006 were \$1,626,581 and \$1,070,115, respectively.

*Administration:* Maintenance of individual member accounts and custody of assets have been contracted to a third party administrator and investment custodian, respectively. Member contributions are sent directly to the third party administrator by the counties. Members can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options. Separate trust funds are maintained for the defined contribution and 457 plan assets. Because the Fund does not hold the plans' assets and does not have significant administrative responsibilities, the plans' assets and changes in net assets are not reported in the Fund's financial statements.

## **8. RISK MANAGEMENT**

The Fund is exposed to various risks of loss related to natural disasters, errors and omission, loss of assets, torts, etc. The Fund has chosen to cover such losses through the purchase of commercial insurance. There have been no significant insurance claims filed or paid during the past three years.

## **9. PENDING LITIGATION**

A lawsuit was filed in October, 2006 by employees of one Missouri county's juvenile court who are seeking to be covered as members of CERF. CERF's position is that the current Missouri statutes exclude employees in this county's situation, and in similar situations for other Missouri counties, from being members of CERF. What the employees are seeking should not affect the amounts and presentations in the accompanying Statement of Plan Net Assets and Statements of Changes in Plan Net Assets as of and for the years ended December 31, 2007 and 2006. However, if the plaintiffs were to prevail, it could affect the reported amount of the unfunded actuarial accrued liability of the plan as of December 31, 2007 and 2006. A favorable judgment was received on May 1, 2008 on CERF's motion to dismiss the case. CERF's legal counsel expects the plaintiffs will appeal this judgment. While management expects CERF to ultimately prevail, the final outcome of this litigation cannot be predicted.

# COUNTY EMPLOYEES' RETIREMENT FUND

## REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2007

### SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b)-(a))/(c)
12/31/02	\$ 113,031,328	\$ 201,855,183	\$ 88,823,854	56.0%	\$ 256,619,955	34.6%
12/31/03	150,351,363	225,589,130	75,237,766	66.6%	277,155,462	27.1%
12/31/04	178,497,546	254,374,828	75,877,282	70.2%	290,944,956	26.1%
12/31/05	197,722,089	272,270,967	74,548,878	72.6%	301,692,241	24.7%
12/31/06	233,046,479	298,184,874	65,138,395	78.2%	317,301,810	20.5%
6/30/07	254,803,856	308,563,489	53,759,633	82.6%	320,317,003	16.8%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Required Contribution	Actual Contribution	Percentage Contributed
2002	\$ 12,266,305	\$ 17,037,898	138.9%
2003	13,368,947	19,264,653	144.1%
2004	13,963,840	18,125,064	129.8%
2005	13,644,088	18,324,010	134.3%
2006	13,447,802	18,923,599	140.7%
Six Months Ended June 30,			
2007	6,474,975	11,656,551	180.0%

### NOTES TO THE REQUIRED SCHEDULES

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age
Amortization Method	Level percent, closed period
Remaining Amortization Period	17.5 years
Asset Valuation Method	Market
Actuarial Assumptions:	
Investments rate of return	8%
Projected salary increases	4% for the first 15 years of membership and 3% thereafter
Cost-of-living adjustments	1%

# COUNTY EMPLOYEES' RETIREMENT FUND

## SCHEDULES OF ADMINISTRATIVE EXPENSES

For the Years Ended December 31, 2007 and 2006

	2007	2006
Personal services		
Staff salaries	\$ 685,773	\$ 651,061
Social security	50,090	48,806
Retirement	29,942	19,176
Insurance	108,914	95,726
Total personal services	874,719	814,769
Professional services		
Actuarial	153,034	156,761
Audit	68,416	47,657
Legal counsel	198,080	206,245
Legislative consultant	67,000	58,667
Plan design and implementation consultants	11,669	18,123
Total professional services	498,199	487,453
Communication		
Printing	24,753	13,792
Postage	22,536	14,458
Telephone	25,189	18,392
Total communication	72,478	46,642
Rentals		
Equipment leasing and maintenance	24,088	13,203
Total rentals	24,088	13,203
Depreciation	264,989	341,512
Miscellaneous		
Utilities	18,195	20,492
Board of directors expenses	19,645	13,027
Business risk insurance premiums	60,648	60,653
Staff development	24,160	16,233
Office	81,495	80,629
Property taxes	343	386
Total miscellaneous	204,486	191,420
Total administrative expenses	\$ 1,938,959	\$ 1,894,999

## COUNTY EMPLOYEES' RETIREMENT FUND

### SCHEDULES OF INVESTMENT EXPENSES For the Years Ended December 31, 2007 and 2006

	2007	2006
Investment management expenses		
Domestic stocks	\$ 562,743	\$ 537,164
International stocks	275,342	238,644
Bonds	199,724	180,768
Real estate	97,021	66,114
Total investment management expenses	<u>1,134,830</u>	<u>1,022,690</u>
Other investment expenses		
Investment consultants	117,480	102,174
Investment custodian	99,268	95,677
Bank depository	7,149	7,250
Total other investment expenses	<u>223,897</u>	<u>205,101</u>
Total investment expenses	<u>\$ 1,358,727</u>	<u>\$ 1,227,791</u>
Securities lending expenses		
Borrower rebates	\$ 3,506,168	\$ 3,716,498
Agent fees	52,548	43,093
Total securities lending expenses	<u>\$ 3,558,716</u>	<u>\$ 3,759,591</u>